

LO Funds

Asia Diversified High Yield Bond

Newsletter IM - Professional

Regional Fixed Income • Fixed Income

30 November 2024

The fund closed November at +17.6% on a YTD basis, against an index return of +16.5%, thereby outperforming the index by 110bps over the period. The fund has been particularly resilient through November, registering a positive return of 28bps while the index was -12bps over the same period. Much of this outperformance came as we have avoided China Property names with binary risk such as Vanke, Sunac, and Roadking.

The main event for November was the US presidential election, which resulted in a victory for Donald Trump, as well as Republican control of the House of Representatives and the Senate. That backdrop saw US risk assets do very well, with the S&P 500 up +5.9% over the month in total return terms. Their performance was supported by ongoing strength in US economic data such as ISM and initial jobless claims numbers. This backdrop lends itself well to High Yield assets continuing to outperform.

Over the course of the month, we have seen several positive developments materialise within our portfolios:

1) Sri Lanka sovereign launched their consent and exchange for their existing bonds towards the end of November (defaulted in 2022). We have acquired bonds this year at an aggressive pace at lower levels, as we have been anticipating this sovereign bond restructuring along with IMF's support. The terms are largely similar to what was disclosed earlier. The restructuring is currently in final stages, and we see a high likelihood of the deal passing this month as the ad-hoc committee (creditor group) represents >50% of the bonds and it has already signalled its support for the bond restructuring package. Once the consent and exchange passes this month, we will have new restructured bonds in the new year – consisting of three types of bonds namely: (i) Past Due Interest (“PDI”) bond which will follow an accelerated repayment timeline and hence will be the strongest new bond, (ii) a governance linked bond and (iii) four macro-linked bonds. We are quite positive on the value generation from the macro-linked bonds which have upside potential if Sri Lanka's GDP between 2024-2027 is strong. Sri Lanka's GDP growth has been strong at 4.5-5% (real) so far and its FX has appreciated well this year, leaving upside potential on the macro-linked bonds. We are currently supporting the

bond exchange, and believe these bonds can return double digit returns during 2025.

2) Vedanta launched another debt-neutral deal with 3-year (2028s) and 7-year (2031s) bonds in order to call their old 13.875% 2028 bonds. The 3-year priced at 10.25% yield and the 7 year at 11.25% yield, which are quite attractive levels for a fundamentally deleveraging credit that is now successfully extending its maturity profile. They have also launched a concurrent consent offer for the remaining stub of the old 2024 bonds asking for a few restrictive covenants to be removed. This is a win-win for the company and the holders, which will enable a ratings upgrade from S&P for the company, thereby removing the “CCC” overhang for the complex. With these developments, bonds have rallied to around and below 10% across the curve, and we expect this to continue to be an alpha position for us into 2025.

3) We added three new issues, namely Fosun (Chinese conglomerate with global assets such as Club Med), Nigeria sovereign, and Rakuten's new subordinated perps. All have done extremely well, and are up between 0.5-2pts above re-offer since new issue. They have since contributed positively to the fund's performance

Against these strong new issues, we have sold existing tight paper such as Japan's Rakuten 2027s and India's Continuum Green's renewable green bonds (COGREN 2027s) at yields of 6.5-7% to make space for these strong outperformers at higher yields.

The portfolio remains well anchored with a YTW of 9.2% with 89 issues and 60 credits. We continue to maintain a small duration overweight (2.9 years) versus the benchmark at 2.2 years and expect outperformance from a total return and relative perspective given attractive carry and spread compression potential. We firmly believe that the outlook for high yield around the short to intermediate duration will lead performance across asset classes in 2025.

Thank you for your continued support.

NIVEDITA SUNIL

On behalf of LOIM Asia Fixed Income team

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FUND PERFORMANCE

30.11.2024	Cumulative			Annualised		
	Share class N [1]	Share class P [1]	JACI HY	Share class N [1]	Share class P [1]	JACI HY
Net performance in USD						
YTD	16.79%	16.06%	15.85%			
1 month	0.28%	0.23%	-0.12%			
3 months	3.18%	3.01%	2.81%			
1 year	20.09%	19.28%	18.18%			
Total return (since 17.08.2022)	27.23%	25.31%	27.86%	11.04%	10.31%	11.28%

Source: LOIM. Note: Past performance is not a guarantee of future results.

[1] Dividend accumulated retail client share class (minimum investment: P share class: "EUR 3,000 or equivalent"), net performance in USD.

[2] Dividend accumulated institutional client share class (minimum investment: N share class: "CHF 1 million or equivalent"), net performance in USD. Return compounded monthly.

For further information please visit: <https://www.lombardodier.com/funds>.

FUND STATISTICS

30.11.2024	LOF - Asia Div HY	Benchmark (JACI HY)*
Yield to worst*	9.12%	8.16%
Average coupon	7.33%	5.68%
Option-Adjusted Spread (bps)*	496	383
Modified duration	2.9	2.1
Average maturity	3.9	4.9
Number of issuers	61	142
Number of issues	92	247
Average rating**	B+	B+ (S&P) / Ba3 (Moody's)
Unrated %***	11.7%	22.1%
Total AuM	USD 227 mln	-

*Benchmark statistics are calculated based on Bloomberg rather than JP Morgan data to be more comparable to the fund.

**Average rating includes LOIM shadow internal ratings.

***Unrated names in the portfolio receive a shadow rating from LOIM's credit analysts.

PORTFOLIO INVESTMENT BUCKETS

	Weights	YTW	Duration	Spread
IG Corporate	2.1%	7.33%	3.2	352
Corporate BBB	1.1%	7.41%	5.4	378
Corporate Perpetuals	1.0%	7.24%	0.7	323
HY Corporate	65.7%	9.28%	2.8	518
HY: Low-beta	6.4%	6.88%	3.1	270
HY: Mid-beta	39.9%	8.03%	2.9	380
HY: High-beta	19.4%	12.63%	2.6	883
Financials	14.4%	8.36%	2.8	424
Senior Financials	9.7%	8.57%	2.5	433
Bank Subordinate	4.7%	7.92%	3.4	406
Insurance Subordinate	0.0%	NA	NA	NA
Govt & Quasi-Govt	17.7%	9.37%	3.1	491
Quasi-Government	1.7%	6.87%	2.6	273
Government	16.1%	9.63%	3.2	514
All	100%	9.12%	2.9	496

*Note that values do not include duration hedges or cash holdings. Figures are subjected to rounding differences.

SUBORDINATE BOND BREAKDOWN

	Weights
Bank Tier 2	0.5%
Bank Additional Tier 1	4.2%
Insurance Subordinated	0.0%
Corporate Subordinated	
Total	4.7%

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TOP 10 COUNTRY WEIGHTS (%)

Country	LOF - Asia Div HY	Benchmark (JACI HY)
India	25.6%	18.4%
China	13.2%	21.7%
Hong Kong	9.6%	15.6%
Macau	7.5%	7.4%
Japan	7.2%	0.0%
Sri Lanka	6.0%	5.7%
Turkey	4.8%	0.0%
Pakistan	4.2%	4.8%
Mongolia	4.0%	2.1%
Indonesia	3.6%	4.1%

TOP 10 SECTOR WEIGHTS (%)

Sector	LOF - Asia Div HY	Benchmark (JACI HY)
Sovereign	16.1%	12.6%
Lodging	14.7%	11.5%
Real Estate	13.2%	15.5%
Mining	10.8%	2.8%
Diversified Finan Serv	9.3%	3.7%
Electric	7.2%	6.5%
Internet	5.4%	0.0%
Banks	5.4%	19.2%
Oil&Gas	4.7%	1.6%
Energy-Alternate Sources	2.7%	2.5%

TOP 20 ISSUERS

Rank	Weighting	Issuer	Country	Sector
1	9.9%	Vedanta Resources Ltd	India	Mining
2	6.0%	Democratic Socialist Republic	Sri Lanka	Sovereign
3	5.4%	Rakuten Group Inc	Japan	Internet
4	4.2%	Islamic Republic of Pakistan	Pakistan	Sovereign
5	4.0%	Fosun International Ltd	China	Lodging
6	3.8%	New World Development Co Ltd	Hong Kong	Real Estate
7	3.5%	Wynn Macau Ltd	Macau	Lodging
8	3.3%	Melco Resorts Finance Ltd	Hong Kong	Lodging
9	3.2%	GLP China Holdings Ltd	China	Real Estate
10	2.9%	MIK Holding JSC	Mongolia	Diversified Finan Serv
11	2.9%	Studio City Finance Ltd	Macau	Lodging
12	2.3%	Piramal Capital & Housing Fina	India	Diversified Finan Serv
13	2.3%	West China Cement Ltd	China	Building Materials
14	2.0%	Republic of South Africa	South Africa	Sovereign
15	1.9%	Muthoot Finance Ltd	India	Diversified Finan Serv
16	1.9%	Yanlord Land Group Ltd	China	Real Estate
17	1.8%	Azure Power Energy Ltd	India	Energy-Alternate Sources
18	1.8%	Yapi ve Kredi Bankasi AS	Turkey	Banks
19	1.8%	SoftBank Group Corp	Japan	Telecommunications
20	1.6%	Medco Energi Internasional Tbk	Indonesia	Oil&Gas
Total	66.4%			

POSITION SIZING BUCKET

	Number of issuers	Weights
Standard (< 1%)	26	15.0%
Conviction (1-2%)	22	31.3%
High Conviction (2-3%)	4	10.3%
Very High Conviction (> 3%)	9	43.3%

INVESTMENT TEAM

SINGAPORE	Dhiraj Bajaj	+65 6305 7762	SINGAPORE	Kenneth Kwan	+65 6305 7750
SINGAPORE	Nivedita Sunil	+65 6305 8728	SINGAPORE	Janvi Sanghvi	+65 6305 7730
SINGAPORE	Poh Xiongwei	+65 6305 7769	SINGAPORE	Benedict Liew	+65 6305 8731

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